



SOUTH FLORIDA WATER MANAGEMENT DISTRICT

September 23, 2008

The Honorable JD Alexander
Chairman, Senate Committee on General Government Appropriations
404 South Monroe Street
Tallahassee, FL 32399-1100

Dear Chairman Alexander:

The South Florida Water Management District (District) appreciates your comments regarding its Tentative Budget Submission for the 2008-09 fiscal year and the significant role of the Florida Legislature in the District's budget process.

The District takes seriously its fiscal responsibilities. Over the last year alone, the agency has taken considerable steps to reduce administrative and operational spending, improve efficiency and direct revenue toward project construction to both restore the environment and improve the quality of life for Floridians. With a full 95 percent of its revenue invested directly in environmental restoration, flood control and water resource management, the District is accomplishing its mission and expanding its level of service without raising taxes or growing government. In building its 2008-09 budget, the District met its requirements under Amendment 1 and maintained its low millage rate to return \$24.3 million to the pocketbooks of South Florida taxpayers.

Today, a remarkable opportunity exists to acquire vast swathes of land in the Everglades Agricultural Area for Everglades restoration. These lands will allow water managers to "re-plumb" Florida's *River of Grass* in ways never before thought possible. While the District recognizes the investment required to accomplish this purchase, it also recognizes this as the most important environmental purchase the agency may ever undertake – one that will benefit Floridians and a unique national treasure for generations. With that in mind, the District has developed a rigorous financial strategy to fund the acquisition and has commenced the extensive due diligence necessary to assure our constituency that this sophisticated transaction will best serve the interests of our environment and citizens.

We are grateful to the Legislature for exploring further the details of this transaction and for its commitment to provide Floridians with additional assurances that government is working as it should. With regard to the specific concerns raised in your letter of September 3rd, we respectfully offer the following:

How the acquisition will impact the district's ability to meet current resource needs and project schedules?

The sheer size and significance of this acquisition has generated many reasonable questions as to how this massive undertaking would affect existing projects and programs, particularly as it relates to Everglades restoration.

It is important to note that even in the absence of federal construction funding for the Comprehensive Everglades Restoration Plan (CERP), and because of the significant support of the Florida Legislature, the State and District have been successful in advancing Everglades's restoration:

- Since 2000, Florida has invested approximately \$2.4 billion to improve the quality, timing and distribution of water in the ecosystem, including approximately \$325 million in construction currently underway or completed.
 - To begin expediting key restoration projects, the District became the first agency in the nation to utilize Certificates of Participation to fund environmental restoration and was recognized nationally for its innovation in financing.
- To date, more than \$1.5 billion has been invested to acquire 58 percent of the land needed to implement the state-federal CERP partnership, including:
 - Acquiring 99 percent of the land needed for the state-led initiative to expedite priority restoration projects.
 - Investing more than \$125 million to place in public ownership 54,310 acres or 99 percent of the land required to complete the Picayune Strand restoration project in southwest Florida.
 - In partnership with Martin County, investing \$440 million to acquire more than 50,000 acres of land needed for the restoration of the Indian River Lagoon, including 100 percent of the land needed for the C-44 reservoir.
- In addition to acquiring land and constructing CERP projects, Florida has also invested more than \$1.8 billion to improve water quality in the Everglades, constructing and managing more than 52,000 acres of stormwater treatment area to clean water flowing into the *River of Grass*.

To potentially acquire lands from the United States Sugar Corporation, the District has proposed modifying the construction schedules for several Everglades restoration projects and redirecting funding already identified for environmental restoration toward the acquisition. Through sound financial management, the purchase can be achieved without raising taxes and with funds still available to achieve full or partial completion of specific and strategically important restoration projects. At least four major restoration construction starts are planned for FY2008-09:

- Build-out of an additional 13,900 acres of stormwater treatment area south of Lake Okeechobee (Compartments B and C);
- Lakeside Ranch Stormwater Treatment Area Phase 1 as a part of the Northern Everglades and Estuaries Protection Program;
- C-111 Spreader Canal expedited CERP project in Miami-Dade County; and
- Acme Basin B Section 24 Impoundment adjacent to the Loxahatchee National Wildlife Refuge.

Beyond environmental restoration, the District's FY2008-09 tentatively approved budget continues to fund our baseline regulatory, water supply, and operations and maintenance requirements -- including more than \$46 million in infrastructure improvements for the Central and Southern Florida Flood Control Project and \$22 million in alternative water supply development.

By reviewing its baseline and implementing an organizational realignment, the District was able to absorb revenue reductions and improve efficiency, achieving a 40-percent reduction in conference-related expenditures, a 21-percent reduction in agency-wide travel and a 24-percent savings in fleet costs. These cost-savings are allowing the District to inject more revenues back into turn-dirt projects that directly improve water quality, develop water supplies, enhance the environment, provide flood protection and expand services for our communities.

Impacts to the District's efforts in reducing nutrient loading to Lake Okeechobee, specifically related to the Kissimmee River watershed?

In 2000, Florida passed the Lake Okeechobee Protection Act establishing a phased, watershed-based protection program to reduce phosphorus loading and restore the lake and its tributaries. As part of the law, the South Florida Water Management District, the Florida Department of Agriculture and Consumer Services and the Florida Department of Environmental Protection developed the Lake Okeechobee Protection Plan, which details the suite of activities necessary for reducing pollutant loads in the watershed and achieving a stringent restoration target known as a Total Maximum Daily Load (TMDL).

Since the implementation of the Lake Okeechobee Protection Plan, the coordinating agencies have reached some notable milestones:

- Adopting a Lake Okeechobee TMDL for phosphorus of 140 metric tons to achieve an in-lake target phosphorus concentration of 40 parts per billion.
- Constructing the Taylor Creek and Nubbin Slough Stormwater Treatment Areas in partnership with the federal government.
- Completing conservation and nutrient management plans for 278,000 acres of agricultural land in the watershed.

- Investing \$7.5 million in individual projects to reduce phosphorus from dairy farms, restore isolated wetlands, treat urban stormwater and enhance water storage and habitat on ranchlands.
- Implementing a comprehensive research and water quality monitoring program for the lake and watershed.
- Treating more than 32,000 acres of exotic and invasive vegetation since 2000.
- Launching the \$200 million Lake Okeechobee and Estuary Recovery Program to increase water storage, expand and construct treatment marshes and expedite environmental management initiatives.
- Working with the fertilizer industry to produce and distribute low- or no-phosphorus fertilizers statewide.

Last year, the Florida Legislature took important steps to increase protection for both the southern and northern reaches of the Everglades system by expanding the Lake Okeechobee Protection Act and creating the Northern Everglades and Estuaries Protection Program. For the first time, the connectivity of the entire ecosystem -- from the Kissimmee River watershed to Lake Okeechobee and south to the Florida Bay -- was recognized in law. In compliance with the expanded legislation, the District and the coordinating agencies developed a Technical Plan for Phase II of the Lake Okeechobee Watershed Construction Project, which was ratified by the Legislature.

Highlights of the multi-phase plan include:

- Implementing agricultural management practices on more than 1.7 million acres of farmland;
- Adopting new regulations that will reduce the impacts of development on water quality and flow;
- Building treatment wetlands to clean water flowing into the lake;
- Using other innovative "green" nutrient control technologies to reduce phosphorus loads from the watershed; and
- Creating between 900,000 and 1.3 million acre-feet of water storage north of the lake through a combination of above-ground reservoirs, underground storage and alternative water storage projects on public and private lands.

The District remains fully committed to implementing the Lake Okeechobee Protection Plan and the Northern Everglades and Estuaries Protection Program. The tentatively approved FY2008-09 District budget includes more than \$125 million for these specific restoration efforts, including \$50 million to construct the first phase of the Lakeside Ranch Stormwater Treatment Area, and \$28 million for water quality improvements in the St. Lucie and Caloosahatchee estuaries.

What input has been received from the federal government concerning the potential acquisition and the impacts to our CERP partnership?

The District has kept its federal partners apprised regarding the potential acquisition of the United States Sugar Corporation's assets. High ranking representatives from both the U.S. Army Corps of Engineers and U.S. Department of Interior attended the June 24, 2008 announcement and expressed their respective agency's support for the initiative. While the federal government is not a partner in the acquisition nor is the acquisition currently a component of CERP, the District will keep federal agencies informed and involved in the development of any associated restoration project through the public planning process.

The initial conceptual planning process will be a District and State-led public effort utilizing the District's Water Resource Advisory Commission, a large and diverse group of water resource interests that includes federal stakeholders. The process will follow a step-wise planning approach that begins by identifying problems and opportunities, sets goals, objectives and constraints, and identifies and evaluates facility options to meet the goals and objectives of restoration. Key ecological areas that will be taken into consideration include Lake Okeechobee water levels, discharges to the St. Lucie and Caloosahatchee estuaries and providing flows to the Central and Southern Everglades.

State funds will not be utilized for this acquisition, and the lands currently would not qualify for satisfying the local sponsor's 50-50 cost-share CERP responsibilities. However, the South Florida Water Management District remains unequivocally committed to achieving its obligations under CERP. Over the first eight years of the state-federal partnership, the \$2.4 billion investment made by the State and District to acquire land and construct restoration projects has far exceeded its 50-50 cost-share contribution. Florida has acquired close to 225,000 acres of land toward CERP and, while not its primary responsibility under the partnership, has designed and initiated construction on a number of CERP projects to advance restoration absent federal construction funding.

This acquisition by the District provides the federal agencies with opportunities to assume its original role in constructing CERP projects and underscores the importance of the federal government's role in rehabilitating the Herbert Hoover Dike and constructing and completing the Modified Water Deliveries project to improve the delivery of cleaner water to Everglades National Park.

Debt service analysis and long-term financial outlook

The tentatively approved FY2008-09 budget includes an estimated \$106.9 million designated for annual debt service for the United States Sugar Corporation land acquisition. This estimate is based upon an estimated \$1.2 billion in long-term debt and \$500 million in other debt that will be structured for early repayment after the sale of assets. Combined with existing Certificate of Participation debt service, payments after the transaction's closing would total approximately \$142.2 million annually with an estimated debt ratio of 26 percent of District pledgeable revenues (*ad valorem* taxes, investment income and permit fees).

Sale of assets will reduce the District's debt service payments to an estimated \$117.8 million annually, with an estimated debt service ratio of less than 19 percent of pledgeable revenues in FY2014. These debt service projections include additional estimated growth in *ad valorem* revenues associated with changes in per capita personal income in future fiscal years as projected by the Office of Economic and Demographic Research (annual estimates of between 2% and 4% for FY2009-10 through FY2018-19), and allowed by recent tax reform legislation. With a rigorous and defined financial strategy, the District has no expectations of raising its millage rate to make this acquisition a reality.

What studies or efforts have been undertaken to determine the economic impact of this acquisition to the regions for related job losses?

As the lead agency charged with assisting in an economic transition, the Office of Tourism, Trade and Economic Development (OTTED), through its Rural Economic Development Initiative (REDI), will work with the Glades communities to undertake a comprehensive, responsive and accurate study of the effect of this transaction on agricultural production, the local workforce and the local and state economy.

While there is full recognition that the economic landscape of the Glades area may be altered by this acquisition, the economic projections so far have been based on "worst case" scenarios. Completing an economic impact study based on the actual outcome of the transaction will enable OTTED, the District and local communities to address the true economic and fiscal affects of the transaction and to evaluate appropriate economic diversification and development strategies.

In the meantime, REDI facilitated a series of community discussions in Hendry, Glades and western Palm Beach counties to seek input and ideas on a viable economic transition for the region. REDI is consolidating this information to assist with the identification of short and long-term strategies for economic redevelopment and

expansion. To expedite the implementation of such strategies, REDI has also begun to identify resources for focus areas such as workforce retention, training and retraining; nature-based tourism; infrastructure improvement; and health and human services.

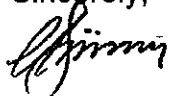
Both Hendry and Glades counties, along with the City of Clewiston and the Tri-Cities of Belle Glade, Pahokee and South Bay, have passed resolutions expressing their expectations and desires associated with the acquisition, particularly as it relates to the availability of land suitable for economic development. The District and State are closely considering the communities' requests, where appropriate, as the contract is negotiated.

It is the District's intent to keep the Glades communities as whole as possible during this acquisition. Third party involvement in the transaction may ensure that agricultural operations continue and, certainly, the acquisition may assist in enhancing economic development, including green energy production and new industry.

In closing, please be assured that the District remains strongly committed to its ongoing partnership with the State of Florida to restore and protect our natural systems. The District continues to exceed its funding commitment for Everglades restoration, and with this potential acquisition, has taken that commitment to new and historic heights. We look forward to working closely with the Florida Legislature as we build upon a proven record of fiscal accomplishment and service to the citizens of this state.

Thank you for your ongoing support.

Sincerely,



Eric Buermann
Chairman, South Florida Water Management District

c: Governor Charlie Crist
Secretary Michael Sole, Department of Environmental Protection
Carol Wehle, Executive Director, South Florida Water Management District